



Book 7

Finance and Accounting

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Budgeting

No section of a manual which covers finance and accounting is complete without at least touching on the key aspects of budgeting. Budgeting, after all, is a major ingredient in tracking a chapter's financial status.

- **Planning Comes Before Budgeting**

A budget is nothing more -or less -than the financial reflection of the plan ...and the plan must come first.

Specifically, the chapter's operating plan must specify "what" the chapter is going to do, "who" is going to do it, "how" the activities will be handled, "when" -over what time frame - specific activities are going to occur, and with what financial results. These monthly financial "goals", covering both income and expense, are projections based on the plan. These projections are put together by the chapter's treasurer, a member of the planning and budget committee.

- **The Financial Forecast is the Budget**

The various increments of income and expense necessary to carry out the plan are summarized on a monthly basis. Then the actual results achieved for that month are measured against the financial plan (budget). A monthly report (prepared by the chapter treasurer), which summarizes the "plan against actual," is presented at the related chapter meeting. This should be a written report, distributed to all in attendance, and summarized verbally during the "business section" of the chapter meeting. The Budget Worksheet located in the Forms Book 10, while intended as a year-end statement, can easily be used to prepare these monthly reports.

- **Fiscal Year**

The Fiscal Year (noted as FY) covers a standard, 12-month period. The actual months covered by the fiscal period (so long as exactly 12 are included) are optional. The AFE auditing firm asks that the fiscal period conform to the calendar year (January through December which is also the AFE administrative year and the standard membership year).

As noted previously in this manual, it is recommended that the chapter select the calendar year as its administrative year. This provides a system for more effective operational planning; it also takes advantage of the natural, psychological shift into the "new year."

To reduce the confusion that can result when administrative, fiscal, and the AFE membership year are all different (which needn't be the case), the same 12-month period should apply to all these periods, covered by the calendar year.

Accounting - Tax Reporting/Related

Current IRS rules specify that a chapter must file a tax return if the gross income (receipts) is in excess of \$50,000. Note: gross receipts include all money a chapter takes in, including meal receipts from members and guests for chapter meetings, etc)

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If the chapter's funds are "invested" in an interest-bearing account, the IRS requires the financial institution to report that interest earned. Consequently, these institutions require the depositor to secure a federal identification number. Because AFE did not include the securing of a Uniform Group Tax Exemption in its incorporation process years ago, chapters must currently secure their own federal I.D. number, or EIN.

More details are given in the *Taxes Book 11* of this manual. *Book 11 is perhaps one of the most important informational books in this manual.*

Summary Chart of Accounts (Suggested)

- Receipts
 - Chapter Dues (transmittals)
 - Meal Receipts
 - Assessments
 - Publications and Periodicals (Newsletter/Meeting, Notice Advertisement, Directory Advertising, Other)
 - Education and Training Programs Income
 - Other Income
- Disbursements
 - Administrative Expense
 - Chapter Meeting Expense
 - Membership Development
 - Publications and Periodicals (Newsletter/Meeting Notice Expense, Directory expense, Other)
 - Education and Training Programs Expense
 - Other Expense
- Surplus (income less expense)

Chart of Accounts (detail)

- Receipts
- Chapter Dues (Transmittals) -This entry is solely to account for chapter dues at the time of deposit, normally from the annual check issued by AFE to the chapter for the dues it collected on the chapter's behalf. NOTE: Chapter dues rates are established by the chapter. AFE Headquarters serves as the collection agent for the chapter.

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- Meal Receipts -Most AFE chapters collect for meeting luncheons or dinners served. All actual cash received for meals is entered in this account.
- Assessments -Occasionally, chapters levy special assessments rather than increase chapter dues (to offset meals over cost, for example).
- Newsletter (or Meeting Notice) Advertising - A number of AFE chapters publish advertising in their monthly newsletter or meeting bulletin. Income received for such advertising is accounted for here.
- Other (Publications/Periodicals) - On occasion, a chapter may publish a special report. This report may be sold by that chapter and/or selected to be a part of AFE's information resources (which may result in commissions paid to the chapter by AFE).
- Education and Training Programs Income - Chapters sponsoring conferences, seminars or other training programs are to report gross income. If income is derived from other sources, in addition to fees, list sub-items: (fees, exhibits, meals [if separate charge], other income).
- Other Income Activity -The source and amount of any income not otherwise identified (e.g., interest earned) is under this account and included here. If more than one such item exists, list each separately.

Disbursements

- Administrative Expense -Expense incurred by elected officers is included here. Accounts may include (among others): stationery, supplies, printing/postage, telephone, committee meetings, travel, other expense (misc.-not included as part of a specific item)
- Chapter Meeting Expense -Expense directly related to the promotion, conduct and food service of regular chapter meetings. Sub-accounts often include: meal expense, speaker expense, equipment rental, other meeting expense (room rental, tickets, etc)
- Member Recruitment and Retention - Expense of recruiting new members, including (complimentary) prospect meals, etc.; retention of members, including mailings, etc
- Newsletter, Meeting Notice -All expense incurred in publication of the monthly newsletter or meeting notice is accounted for as follows: printing, mailing and postage, other
- Directory -All expense incurred in the preparation and issuance of the directory is accounted for as follows: printing, mailing and postage, other
- Other Periodicals/Publication Expense (as applicable)
- Education and Training Programs -All expense incurred in sponsoring each seminar, conference, training program, etc., (separately for each event) is accounted for as follows: promotion, equipment rentals, committee expense, speaker expense, meals, other meeting expense
- Awards and PR -All plaques and other awards presented by the chapter, press releases, etc., are accounted for in this account. Each activity (new student chapter, "Day with a Practicing Professional", "Career Days", purchase of individual career booklets, etc.) should be itemized

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Surplus

- Amount of income over expense. (If under income, shown in brackets)

Reporting Financial Status

- The "Financial Data Form" is recommended for preparing the monthly chapter financial statements. Also, it should be completed each year and forwarded to AFE Headquarters, covering the entire fiscal year.

NOTE: Be sure to read Book 11 "Taxes" as this is very important to your chapter!!

The next page shows the differences between an IRS 501(c)3 non-profit and a 501(c)6 non-profit. It is highly advised that chapters be incorporated as a 501(c)6 non-profit corporation and that they also set up a 501(c)3 foundation so that any contributions are tax deductible to the contributor. Also, any fund raising activities; e.g. golf tournaments, etc, can be put on by the foundation. Any sponsors are able to have their contributions as tax deductions. For more information and details on this suggestion, please call the AFE Executive Director at (571) 203-7171

501(c) 3

vs.

501 (c) 6

Exempt from federal income tax as an organization that is structured and operated exclusively for religious, charitable, scientific, literary or educational purposes, for the prevention of cruelty to animals or children, or for the purpose of testing consumer products for public safety, or to foster national or international sports competition.	Exempt from federal income tax as a nonprofit business league*, chamber of commerce, real estate board, board of trade, or professional football league.
For the benefit of the public.	For the benefit of the organizations' members.
The articles of the organization must limit the organization's purpose to its specified cause, and may not expressly engage in activities that are not in furtherance of its specified purpose.	It must be an association of persons having some common business interest and its purpose must be to promote this common business interest. It must be a membership organization and having a meaningful extent of membership support.
The organization will have no specific ownership. All profits are reinvested in the organization.	The organization will have no specific ownership and are generally controlled by members, who do not receive stock. All profits are reinvested in the organization.
No part of the organization's net earnings will inure to the benefit of any private shareholder or individual and it may not be organized for profit or to engage in for-profit activities.	No part of the organization's net earnings will inure to the benefit of any private shareholder or individual and it may not be organized for profit or to engage in for-profit activities.
Assets of an organization must be permanently dedicated to its exempt purpose.	The organization must be primarily supported by membership dues and other income from activities substantially related to its exempt purpose.
Allows for tax deductible contributions and matching gifts.	Contributions are not tax deductible by individuals (although businesses can deduct contributions as a business expense.)
Eligible for foundation and other grants.	Not eligible for grants.
The organization is restricted in the amount of political and legislative (lobbying) activities it conducts. It must not, as any substantial part of its activities, attempt to influence legislation by propaganda or otherwise (except for certain lobbying activities.)	May engage in any amount of legislative activity germane to the common business interests of the organizations' members. Lobbying should not be the organization's major focus.

* *Business League: An association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried out for profit. Trade associations and professional associations are considered to be business leagues.*